

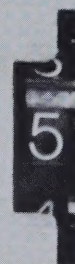
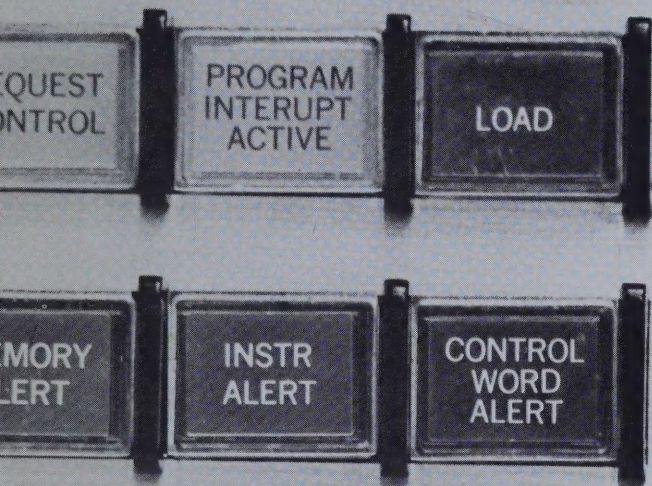


CanCorp

SYSTEMS LIMITED

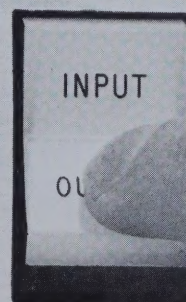
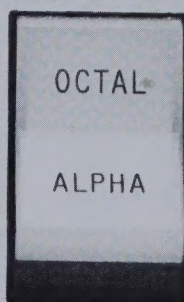
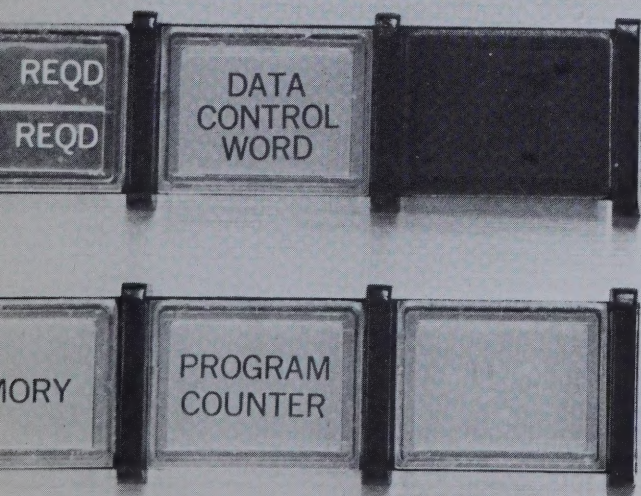
annual report 1974

COMPUTER CONTROL



LOAD
CHANNEL

TYPEWRITER CONTROL





DIRECTORS:

Adrian M. Doull
Vice President
Anglo American Corporation of Canada Limited

Stuart R. Horne
Investment Manager,
Anglo American Corporation of Canada Limited

Christopher D. Hyde
Assistant Vice President
Frandedcor Ventures Ltd.

Michel M. Lessard
Vice President
Francana Development Corporation Ltd.

Michael J. Needham
Vice President, Helix Investments Limited

Albert B. Ormsby
President, PolyCom Systems Limited

Robert L. Shirriff
Partner, Fasken & Calvin
Barristers & Solicitors

Donald C. Webster
President, Helix Investments Limited

OFFICERS:

Christopher D. Hyde
Chairman of the Board

Albert B. Ormsby
President

Robert L. Shirriff
Secretary

AUDITORS:

Deloitte, Haskins & Sells

REGISTRAR AND TRANSFER AGENT:

Royal Trust Company



To the Shareholders:

I am pleased to report that the improved operational trend indicated by the first six months results of fiscal 1974 has been confirmed by full year results.

Consolidated revenues for fiscal 1974 of \$1,674,370 represented an increase of 23% from the \$1,359,266 of fiscal 1973 whilst net income before extraordinary items in fiscal 1974 of \$26,328 compared most favourably with the net loss before extraordinary items of \$227,234 which was sustained in fiscal 1973. The write-off of the remaining lease commitment on an unused equipment facility was the prime reason for a fiscal 1974 net loss after extraordinary items of \$117,677 which was substantially reduced from the \$466,634 loss for the corresponding period a year earlier. Loss per common share before extraordinary items and after allowance for unpaid dividends on preference shares, using the weighted average number of shares outstanding during the year, was \$0.037 compared with a loss of \$0.400 in the previous fiscal year whilst loss per common share after extraordinary items was \$0.243 and \$0.742 for fiscal 1974 and 1973, respectively.

Funds provided from operations in fiscal 1974 were \$232,178 which was an improvement of \$273,561 over the results achieved in fiscal 1973.

During the year under review, the wholly-owned subsidiaries, Cooper Key punch Services Limited and National Library Resources Limited, were sold. Profitability expectations of these companies were not being realized and the decision was made to devote your Company's financial and management resources to data processing activities. The remaining wholly-owned subsidiary, Data Security Limited is making good progress. However, this subsidiary is to be sold in mid-December 1974 in order to further concentrate on expanding and strengthening your Company's participation in the growing computer service industry.

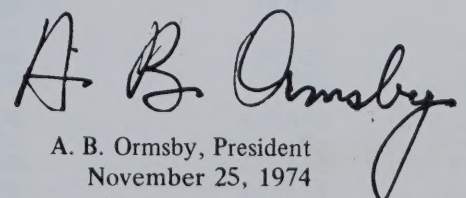
The proceeds of the Data Security sale together with the existing cash position and strong operating cash flow are expected to meet your Company's needs for funds and improve the working capital position.

Our PC II computer System, which combines Honeywell 6060 hardware and Dartmouth software, was directly

responsible for a 34% increase in data processing revenues in fiscal 1974. In an effort to continually expand the PC II revenue base, two key decisions were made in the summer of 1974 which should contribute materially to future results. One of these relates to the offering of an innovative pricing package called Portplan which provides large scale users of computer services with low, fixed-cost monthly data processing charges. The other relates to expansion of geographical activities through the appointment of Jeffrey J. Harvie Associates Ltd. of Ottawa as marketing agent for the Eastern Ontario area with prime emphasis on developing business with Federal Government departments and agencies. Our Ottawa agent will also market the PC I computer system which continues to operate at high levels relative to capacity. Complementing these 1974 decisions is a firm commitment to offer in fiscal 1975 additional applications packages emanating from a combination of internal software development and external joint venture agreements.

Your Company's expectations for the future are strongly influenced by the outlook for the computer service bureau industry as a whole and, more specifically, the market for interactive time-sharing services. At the present time more companies than ever before are finding that an on-line computer service bureau is a viable alternative to an in-house installation. The advent of high capital costs for both funds and equipment as well as future economic uncertainty has caused deferment of purchase commitments and has undoubtedly contributed to the growth of your Company's revenues to date.

The improvement in operating results of your Company would not have been possible without the dedicated efforts of PolyCom's talented staff and I extend my personal thanks to them. There is a continual striving at PolyCom for better management, organization and procedures which, when supported by a responsive staff, provides the foundation necessary for fulfillment of Company goals.


A. B. Ormsby, President
November 25, 1974



POLYCOM SYSTEMS LIMITED AND SUBSIDIARIES

(Under the Business Corporations Act, Ontario)

CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 1974

(With Comparative Figures at
September 30, 1973 — Note 1)

ASSETS

Current Assets:

	1974	1973
Cash	\$ 42,361	\$ —
Deposit receipts	145,000	—
Accounts receivable	226,006	232,896
Inventory — at lower of cost or net realizable value	13,190	77,667
Prepaid expenses	11,094	9,143
Current portion of notes receivable (Note 1)	18,400	—
Total current assets	456,051	319,706

Investments And Advances:

Equity Control Limited — at equity (Note 1)	4,836	5,248
Notes receivable (Note 1)	31,600	—
Sundry advances (Note 6)	—	35,000
Total investments and advances	36,436	40,248

Land, Building and Equipment — at cost (Note 2)	3,610,507	1,402,343
Less accumulated depreciation and amortization	335,787	209,861
Net land, building and equipment	3,274,720	1,192,482

Deferred Expense (Note 3)	—	119,700
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Goodwill — at cost (Note 4)	—	20,278
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Total	\$3,767,207	\$1,692,414
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LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

Bank overdraft	\$ —	\$ 4,416
Accounts payable and accrued charges	89,878	30,004
Rentals received in advance	28,848	24,595
Long-term liabilities due within one year (Note 5)	450,084	96,818
Total current liabilities	568,810	155,833

Long-term Liabilities (Note 5)	2,296,876	465,485
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Shareholders' Equity:

Capital stock (Note 6)

Authorized:

300,000 preference shares with a \$5.00 par value
issuable in series.

1,000,000 common shares of no par value.

Issued and fully paid:

140,000 7½% cumulative redeemable convertible
preference shares with a \$5.00 par value,

Series A

699,808 common shares

Less 10,000 common shares acquired (Note 6) ...

Deficit	1,717,996	1,583,421
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Net Shareholders' Equity	901,521	1,071,096
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Total	\$3,767,207	\$1,692,414
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Approved by the Board:

ALBERT B. ORMSBY Director

CHRISTOPHER D. HYDE Director

Auditors' Report

To the Shareholders of PolyCom Systems Limited:

We have examined the consolidated balance sheet of PolyCom Systems Limited and subsidiaries as at September 30, 1974 and the consolidated statements of loss, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the equity method of accounting for the investment in a 50%-owned company as explained in Note 1.

Toronto, Canada
November 22, 1974

DELOITTE, HASKINS & SELLS
Chartered Accountants

**CONSOLIDATED STATEMENT
OF LOSS**
FOR THE YEAR ENDED
SEPTEMBER 30, 1974
(With Comparative Figures for
1973 — Note 1)

	1974	1973
Revenue	\$1,674,370	\$1,359,266
Expenses , ,	1,618,444	1,497,999
Income (Loss) from Operations	55,926	(138,733)
Other Income (Expenses):		
Unused facility	—	(78,750)
Interest expense, net of income	(6,216)	(18,462)
(Loss) gain on sale of equipment	(970)	6,093
Equity in income of 50%-owned company (Note 1) ...	3,588	2,618
	(3,598)	(88,501)
Income (Loss) before Income Taxes and Extraordinary Items	52,328	(227,234)
Income Taxes	26,000	—
Income (Loss) Before Extraordinary Items	26,328	(227,234)
Extraordinary Items:		
Elimination of income taxes by application of prior years' tax losses	(26,000)	—
Lease commitment on unused facility written off (including maintenance of \$18,132 in 1974) (Note 3)	137,832	239,400
Loss on sale of subsidiary companies (Note 1)	32,173	—
	144,005	239,400
Net Loss For The Year	\$ 117,677	\$ 466,634

**CONSOLIDATED STATEMENT
OF DEFICIT**
FOR THE YEAR ENDED
SEPTEMBER 30, 1974
(With Comparative Figures for
1973 — Note 1)

Deficit at Beginning of the Year		
As previously reported	\$1,563,669	\$1,069,417
Retroactive change to equity method of accounting for investment in a 50%-owned company (Note 1) ...	19,752	22,370
As restated	1,583,421	1,091,787
Net Loss for the Year	117,677	466,634
Goodwill written-off (Note 4)	16,898	25,000
Deficit at End of the Year	\$1,717,996	\$1,583,421

**CONSOLIDATED STATEMENT
OF CHANGES IN
FINANCIAL POSITION**
FOR THE YEAR ENDED
SEPTEMBER 30, 1974
(With Comparative Figures for
1973 — Note 1)

Funds Provided:		
Income before extraordinary items	\$ 26,328	\$ —
Charges not involving funds:		
Depreciation and amortization	178,880	—
Loss on sale of equipment	970	—
Elimination of income taxes by application of prior years' tax losses	26,000	—
Funds provided from operations	232,178	—
Sale of equipment less reduction in long-term debt of \$444,950 in 1973	8,000	57,221
Advances repaid	4,000	—
Total funds provided	244,178	57,221
Funds Applied:		
Loss before extraordinary items	—	227,234
Charges not involving funds:		
Depreciation and amortization	—	(191,944)
Gain on sale of equipment	—	6,093
Funds applied to operations	—	41,383
Additions to land, building and equipment, less long-term debt assumed — 1974 — \$2,279,154 (1973 — \$43,740) (Notes 2 and 5)	16,214	615,520
Reduction in long-term liabilities (Note 5)	447,763	16,879
Maintenance expense on unused facility (Note 3)	18,132	—
Sale of subsidiaries less non-current notes receivable of \$31,600 (Note 1)	35,113	—
Equity in income of 50%-owned company (Note 1) ...	3,588	2,618
Total funds applied	520,810	676,400
Decrease in Working Capital During the Year	276,632	619,179
Working Capital at Beginning of the Year	163,873	783,052
Working Capital (Deficiency) at End of the Year	\$ (112,759)	\$ 163,873

The accompanying notes are an integral part of the financial statements.



Notes to the Consolidated Financial Statements September 30, 1974

1. Principles of Consolidation

- (1) The consolidated financial statements include the accounts of Data Security Limited, a wholly-owned subsidiary. During the year, the investments in Cooper Key punch Services Limited and National Library Resources Limited were sold, resulting in a loss on disposal of \$32,173, for notes receivable of \$50,000 (bearing interest at the prime bank lending rate plus 2%) plus cash. The 1973 figures presented for comparison included the accounts of Data Security Limited, Cooper Key punch Services Limited and National Library Resources Limited. The 1974 consolidated statements of loss, deficit and changes in financial position include the results of operations of these companies up to the date of their respective sales.
- (2) The company has changed its method of accounting for its investment (including shares and advances) in Equity Control Limited, a 50%-owned company, from the cost method to the equity method. This change has been given retroactive effect and the deficit at September 30, 1973 has been restated by \$19,752 (September 30, 1972 - \$22,370).

2. Land, Building and Equipment

The major categories of land, building and equipment and accumulated depreciation and amortization are as follows:

	1974	1973	Depreciation Rates
Land.....	\$ 50,725	\$ 50,725	
Building.....	218,951	218,951	2½%
Computer G440.....	506,187	515,554	(See below)
Computer H6060.....	2,409,164	130,010	(See below)
Furniture and equipment.....	316,757	380,949	10%
Leasehold improvements.....	108,723	106,154	Term of lease
Total cost.....	3,610,507	1,402,343	
Less accumulated depreciation and amortization.....	335,787	209,861	
Net land, building and equipment.....	\$3,274,720	\$1,192,482	

It is the companies' practice to provide for depreciation and amortization under the straight-line method at basically the rates shown above and, in the case of leasehold improvements, over the term of the leases. The Computer G440 is being amortized equally over a period of 5 years to a nil residual value, commencing January 1, 1973. The Computer H6060 is to be amortized equally over a period of 7 years to a 15% residual value, commencing October 1, 1974 (approximate date of acceptance of equipment installation). All costs incurred prior to the computers being fully installed and operational have been expensed as incurred.

3. Deferred Expense

The company has now written off all obligations under a lease agreement, requiring monthly payments to 1978, for equipment which is not presently being used and for which no future use is now anticipated.

4. Goodwill

Goodwill of \$16,898 attributable to a specific investment by the company can no longer be assigned a valuation and has therefore been written off. Goodwill of \$3,380 was included in the assets of a subsidiary company sold during the year.

5. Long-term Liabilities

The long-term liabilities of the company are as follows:

Debt:	1974	1973
Computer equipment purchase agreement, interest at 10%.....	\$ 21,539	\$ 43,740
Computer H6060 purchase agreement, interest at 10% plus monthly principal instalments of \$29,700 commencing November 1, 1974.....	2,279,154	—
10½ % mortgage, due in equal blended monthly instalments of \$1,532 through June 1995.....	157,367	159,463
	2,458,060	203,203
Payments under lease agreement — \$6,420 monthly until 1978 (Note 3).....	288,900	359,100
	2,746,960	562,303
Less amounts due within one year and included in current liabilities.....	450,084	96,818
Total long-term liabilities.....	\$2,296,876	\$ 465,485

Interest expense incurred on long-term debt during the year amounted to \$20,286 (1973 - \$33,547).

6. Capital Stock

Series "A" Preference Shares

The Series A preference shares are redeemable at the amount paid up thereon plus unpaid cumulative dividends (\$105,000 as at September 30, 1974) and a decreasing premium ranging from 7% to 1% depending upon when called for redemption between May 31, 1974 and May 31, 1978. Such shares are convertible, prior to redemption, into common shares of the company on a one-for-one basis with provision for adjustment of the conversion factor, in certain events, to May 31, 1982. As of October 1, 1974 each Series A Preference Share will have equal voting rights with Common Shares until all outstanding cumulative dividends have been paid.

Stock Options and Warrants

As partial consideration given under several agreements, the company has granted stock options and warrants. Details of the stock options and warrants outstanding are as follows:

<u>Number of Shares</u>	<u>Warrant or Option Price</u>	<u>Expiry Date</u>
24,000	\$15.00	December 31, 1974
15,000	1.00	February 28, 1979
25,000	1.00	February 28, 1979
41,000	.50	September 30, 1979

As of October 1, 1974, the company granted the above options to employees for 41,000 common shares at \$.50 per share expiring September 30, 1979 and revoked the Employee Stock Purchase Agreement established as of January 31, 1974. The Options for the 25,000 shares and 41,000 shares are exercisable in five equal annual instalments commencing in 1974, such options being cumulative but subject to expiration in conjunction with the termination of services.

Shares Acquired

Under an agreement dated November 15, 1971, the company advanced \$35,000 to Anmercosa Ventures Limited to purchase, as trustee on behalf of a PolyCom employee, 10,000 common shares of the company's capital. The advance was to be repaid by Anmercosa as they received payments from the employee, prior to December 31, 1976 or within one year of the employee terminating employment, or the shares were to be donated to the company as full settlement of the unpaid advance. As of October 31, 1974, the shares have been acquired by the company in settlement of the unpaid advance.

7. Income Taxes

The companies have tax losses from operations available for reduction of taxable income in future years aggregating \$87,100, expiring as follows:

<u>Amount</u>	<u>Date</u>
\$22,500	September 30, 1975
24,700	September 30, 1977
18,500	September 30, 1978
21,400	September 30, 1979
<u>\$87,100</u>	

The undepreciated capital cost of building and equipment, for income tax purposes, exceeds the net book value by \$636,000 as at September 30, 1974. This excess and the future payments under the lease commitment for the unused facilities of \$288,900 as at September 30, 1974 are also available for reduction of future taxable income.

The companies also have capital losses of approximately \$120,000 which are available indefinitely to apply against future taxable capital gains.

8. Earnings per Share

Loss per share has been calculated using the weighted average number of shares outstanding during the year and after providing for cumulative dividends on preference shares for the current year.

	<u>Loss Per Share</u>	
	<u>1974</u>	<u>1973</u>
Loss before extraordinary items	\$.037	\$.400
Loss for the year	.243	.742

Conversion of the preference shares, exercise of the options and warrants and the adjustments to income resulting from these items do not cause a dilution in the earnings per share.

9. Contractual Obligations

The companies are committed:

- to an annual rental on leased premises of approximately \$70,000 to 1978, and
- under licencing agreements for technical services of \$90,000 per annum, subject to cancellation on 30 days notice after February 28, 1975.

10. Remuneration of Directors and Senior Officers

Remuneration of senior officers, as defined by The Business Corporations Act, Ontario, for the current year amounted to \$126,884 (1973 — \$115,243) No remuneration was paid to the directors of the Company as such.

11. Comparative Figures

Certain 1973 figures have been reclassified to conform with the 1974 method of presentation.

12. Subsequent Event

On November 22, 1974, the company agreed to sell, prior to December 16, 1974, its total investment (including shares and advances) in Data Security Limited, its wholly-owned subsidiary, for \$200,000 cash. This will appear in the 1975 consolidated financial statements as a gain on sale of subsidiary of approximately \$30,000.



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